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SUBJECT: HONDURAS: NEW IMF RESIDENT REPRESENTATIVE AWARE OF
BUT NOT ALARMED BY CAMPAIGN RHETORIC

1. (SBU) Summary: U.S. citizen and ten-year IMF-veteran Hunter Monroe has just arrived as the new IMF Resident Representative for Honduras. He previously served in several IMF positions, including ResRep to the former Soviet Republic of Georgia. In comments to Post, Monroe noted a number of disconcerting populist legislative proposals were "floating around," but said the fund is "not alarmed" at this time. One proposal -- the pension reform -- to pass, the Fund would be very concerned, but Monroe has been assured that the proposal will be shelved by Congress. Other issues he will track include the fiscal impacts of CAFTA and of privatization of the parastatal telephone monopoly, and the economic causes and impacts of sharply rising remittances to the region. End Summary

2. (SBU) On August 15 EconChief and AIDOff met with newly-arrived International Monetary Fund (IMF) Resident Representative to Honduras, Hunter Monroe. Monroe confirmed that a Fund review mission will be arriving August 22 for a two-week inspection of GOH economic performance and compliance with its existing Poverty Reduction and Growth Strategy (PRGS). The team will be led once again by Luis Breuer, who has directed several previous missions to Honduras.

3. (SBU) The Fund, Monroe said, "is not aware of anything wrong" with Honduran fiscal performance to date. While "there are a lot of bad ideas floating around," he said, the Fund is "not alarmed" by most of the rhetoric. Recent examples of such ideas -- largely populist campaigning in the run-up to the November 27 presidential elections -- include: a proposed second increase in the minimum wage; breaking the agreed cap on severance payments for workers; freezing prices; removing a fuel adjustment surcharge from household electricity bills (reported septel); and doubling the individual income tax exemption (from 70,000 lempiras plus 20,000 lempiras for medical expenses to 150,000 lempiras plus 50,000). (Comment: Rhetoric aside, none appears likely to pass this year. End Comment.)

4. (SBU) The one proposal that is of concern to the Fund, Monroe said, is the reform of the pension system. This bill "would be a serious concern (for the Fund) if it passed," he said. Such a reform requires significant actuarial and fiscal impact analyses, but such analyses have not been done. The bill is worrisome because its consequences are still largely unknown. Monroe said he has been privately assured that the bill -- already submitted to Congress -- will not be taken up during the remainder of this session. (Comment: Post finds this assurance credible. Post has heard from GOH sources that the priorities for Congress in the few legislative days remaining to it before its September 15 recess include the telecommunications bill, the forestry bill, the MCA authorizing legislation, civil code reform, and certain penal code modifications. Pension reform is not high on the Congressional agenda, and private sector interlocutors have told Congress they believe that a rush-job of reform in the run-up to an election is a bad time to undertake such a weighty issue and would risk damaging the pension system and the economy. In addition, labor unions are not on board for the proposed reforms. End Comment.)

5. (SBU) Other issues the Fund is interested in investigating include the fiscal impact of CAFTA (how the GOH will replace revenues lost as import duties are removed); the fiscal impact of the impending de-monopolization and possible privatization of state telecoms giant Hondutel; and a better understanding of the causes and impacts of the unprecedented growth in remittance flows to the region. The Fund will also continue to encourage strengthening of the financial sector and a move towards more flexible exchange rate policy (in part to alleviate budgetary pressures generated by sterilization of over USD 1 billion in remittance inflows annually.)

6. (SBU) Biographical Information for Hunter Monroe: Monroe is a U.S. Citizen, native of North Carolina. Monroe has been

with the IMF for ten years, most recently serving as the Senior Economist in the Central America Division, where he focused on Guatemala and on remittances (2003-2005). Prior to that he worked on the Zambia and Bolivia portfolios (2001-2003), served as the Fund's Resident Representative to the former Soviet Republic of Georgia (1996-1999), and as an economist focusing on Slovakia and Georgia (1994-1996). Monroe has also been the CEO of a start-up technology company (1999-2001), a Research Associate at the Institute for International Economics (1990-1991), an economist on the Joint Economic Committee of the U.S. Congress (1987-1990), and an Adjunct Professor at Stanford University (1989-1991). Monroe has a D.Phil. in Economics from Oxford University and a B.S. in Mathematics from Davidson College. He is married with two children, and speaks English, Spanish, French, and Russian.

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